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UNCLAS SECTION 01 OF 07 TEGUCIGALPA 000181

SENSITIVE

FOR ASSISTANT SECRETARY SHANNON FROM AMBASSADOR LLORENS

SIPDIS

E.O. 12958: N/A

TAGS: [PREL](#) [ECON](#) [SOCI](#) [OVIP](#) [HO](#)

SUBJECT: Scenesetter for Assistant Secretary Shannon's Visit to Tegucigalpa

¶1. (SBU) Summary: We warmly welcome you to Tegucigalpa. Your visit provides an excellent opportunity to hold substantive discussions with President Zelaya, senior GOH officials, as well as with the two leading presidential candidates. The political situation continues to be stable as we move forward towards next November's general election, but there remains a fair amount of suspicion by many opponents of President Manuel "Mel" Zelaya. In recent months, concerns that Zelaya might be looking for a way to stay beyond his term have been eased in the wake of the successful primaries and election of a new Supreme Court. The global economic crisis is beginning to have an impact in the way of tighter credit, slower growth and higher unemployment. Zelaya has so far resisted extending the IMF Stand-By Agreement and the GOH is slowly developing an anti-crisis plan. The security and crime situation continues to deteriorate and there have been several kidnappings of U.S. citizens. Nevertheless, the GOH is fully committed to working with us on the Merida Initiative. Our USAID and MCC teams continue to implement robust programs and we have conceived and implemented innovative Mission strategies to strengthen cooperation on renewable energy and public-private-partnerships. FSN salaries have fallen far behind inflation and our lowest ranks are having a difficult time supporting their families. We have instituted a strong cost containment plan to assure sufficient funding for FY-2009 and to use some of the savings to augment FSN salaries at the end of the Fiscal Year. End summary.

¶2. (SBU) Your visit comes at an opportune time to emphasize our support for the democratic process, review the impact of the global economic crisis and determine ways we can help, engage the government on the Summit of Americas, and discuss the upcoming OAS ministerial to be hosted by the Hondurans in San Pedro Sula.

POLITICAL DEVELOPMENTS:

¶3. (SBU) Although there are concerns in some circles about President Manuel "Mel" Zelaya's motives, the political situation is currently stable. The split between Zelaya and the business elite and much of the political establishment remains significant, and many here remain bitter about Zelaya's decision to join ALBA and raise the minimum wage by 60 percent(for some categories of workers). Indeed, Zelaya's cultivation of ties with Chavez and fellow ALBA members has

engendered fears by many of the business elite and urban middle class that he wants to stay in office. His private threats to rule by decree during the Supreme Court election process further unsettled the political scene. The February appointment of leftist Paty Rodas as foreign minister and her subsequent invitation to Iranian officials to visit Honduras (Zelaya forced her to rescind the invitation) also heightened uncertainty.

¶4. (SBU) Zelaya insists his outreach to Chavez, and membership in Petro Caribe and ALBA, is an effort to secure more financial and development resources for his country. In private and public statements, Zelaya insists that the U.S. remains his strategic partner and that he would do nothing to undermine that relationship. In fact, we continue to have excellent access to Zelaya and on most security, law enforcement, intelligence, trade, investment, and energy issues the relationship is extremely close and positive. The selection of two candidates from each of the major parties to run in next November's general election, Porfirio "Pepe" Lobo from the Nationalists and Elvin Santos from the Liberals, has helped ease concerns and focus the political class and citizenry on the upcoming general elections scheduled for November of this year. A key player in the political arena is Congress President Roberto Micheletti. Following a bitter Liberal Party primary loss to Vice President Elvin Santos, Micheletti and Santos have made peace and the former is expected to be named President of the Liberal Party. Micheletti is committed to the democratic process and is an effective counterweight to any attempts by Zelaya to move off the democratic path. He resisted Zelaya's attempts to postpone the primaries and, working with Lobo and Santos, outmaneuvered Zelaya on the Supreme Court election issue.

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A COMPETITIVE DIPLOMATIC APPROACH:

¶5. (SBU) We are committed to implementing a competitive diplomatic strategy in Honduras. We have stayed close to Zelaya and engaged him in a very positive agenda of issues and initiatives. We have also avoided overreacting to his dealings with Venezuela and Cuba or to his populist rhetoric. We have encouraged Zelaya and other political actors, including the business community, to patch up their differences and focus on priority national issues. In several instances when Zelaya has threatened our interests, such as postponing the primary elections, threatening to rule by decree, or inviting Iranian diplomats to visit, we have approached him in a direct and discreet way and articulated our core interests. In these instances he has not crossed our red lines. We have also worked with Lobo, Santos, and Micheletti to seek common ground. Above all, we have avoided taking our disagreements public, which only makes Zelaya more difficult.

THE ELECTION OUTLOOK:

¶6. (SBU) Looking to the upcoming elections, Elvin Santos is slightly ahead in the polls. He is generally seen as more telegenic and charismatic and his wife is a former beauty queen. While having little political experience, or perhaps because he has had little experience, he is generally seen as more likely to curb corruption. Lobo, on the other hand, is seen as more experienced, more able to deal with the security crisis, and has the advantage that his party is in opposition. Lobo has already put together an impressive team for his campaign. In recent crises, such as the primary postponement and Supreme Court election, he has outmaneuvered his rivals (including Santos).

THE ECONOMY:

¶7. (U) Honduras, with a GDP per capita of \$1,635 in 2007, is one of the poorest countries in the Western Hemisphere. GDP grew more than 6 percent a year 2004-2007 but slowed to about 4 percent in 2008. A further deceleration, or decline, is expected in 2009. The exchange rate has been fixed since October 2005, despite a substantial increase in consumer prices of 28 percent through January 2009.

Inflation surpassed 10 percent in 2008 but began slowing late in the year with the fall in oil and commodity prices. Social indicators in Honduras improved somewhat in recent years, but 59 percent of Honduran households still live in poverty, according to the latest household survey, 36 percent were unemployed or underemployed in May 2008 and the average adult Honduran has only a sixth-grade education.

¶18. (SBU) Honduras is beginning to feel the effects of the global recession, especially in the export-oriented maquila sector, where about 30,000 have been laid off since last August out of a pre-crisis workforce of about 145,000. Bank balance sheets remain healthy, but banks are being extremely conservative about lending, so businesses are credit-constrained. An IMF Stand-By Agreement concluded last April expires at the end of this month, and there are no active discussions ongoing on an extension. The IMF has been insisting on greater exchange-rate flexibility, which President Zelaya and Central Bank President Edwin Araque have publicly ruled out. Finance Minister Rebeca Santos is traveling to Washington this week to finalize an IDB port-modernization loan and may have informal discussions with the IMF. The USG and international financial community may be able to help soften the blow of the crisis on Honduras by strengthening the social safety net, providing credit guarantees for small-business loans, financing labor-intensive infrastructure projects and providing a contingency line of credit to support the Lempira in the event of a speculative attack if the GOH loosens the exchange-rate peg. Temporarily loosening some of the CAFTA textile rules of origin could also help

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reactivate manufacturing here.

¶19. (U) CAFTA entered into force for Honduras April 1, 2006. The inflow of foreign direct investment into Honduras increased from \$600 million in 2005 - the last year before CAFTA entered into force - to \$877 million in 2008. Two-way trade with Honduras in 2008 was \$8.9 billion, up 6 percent from \$8.4 billion in 2007. Honduran imports from the U.S. have grown much faster under CAFTA than Honduran exports to the U.S., giving rise to criticism here that the agreement was one-sided. (Note: Half of the increase in imports was due to the impact of rising fuel prices - Honduras gets most of its fuel from U.S. refineries.)

¶110. (U) Family remittances from Hondurans living abroad, particularly the U.S., account for 20 percent of GDP. Remittances surged 31 percent in 2006, but growth slowed to 10 percent in 2007 and 8 percent in 2008. Remittances declined 5 percent year-on-year in January 2009 and may continue to decline during the year due to the U.S. economic crisis, but at \$2.7 billion in 2008, they remain the largest single source of foreign exchange. By comparison, apparel exports to the United States in 2008 were \$2.7 billion.

¶111. (U) Since 2005 Honduras has benefited from \$4 billion in debt relief from bilateral and multilateral donors. The donor community estimated this would reduce debt service payments by up to \$160 million in 2007. The GOH has committed to applying these funds to poverty alleviation, as laid out in the Poverty Reduction Strategy.

RENEWABLE ENERGY AGENDA:

¶112. (U) The Embassy has made cooperation on renewable energy a priority issue in the bilateral relationship and developed and is implementing a Mission-wide strategy. In February, President Zelaya traveled to Washington and met with Secretary of Energy Chu and discussed ways the two countries can strengthen cooperation on renewable energy. The Washington visit was followed-up by a visit to the National Renewable Energy Laboratory in Colorado to see the potential of cutting-edge U.S. technologies to improve Honduras's environment and energy security. The Costa Rican firm Mesoamerica plans to install the largest wind farm in Central America in Honduras (of 100 megawatts), using GE turbines. We plan to organize a forum and exhibition and reverse trade mission later this year to further promote renewable energy here. Honduras is also eligible for assistance under the U.S.-Brazil Biofuels Initiative.

PUBLIC-PRIVATE-PARTNERSHIPS:

¶13. (U) The Embassy has also developed a strategy for encouraging public-private partnerships involving U.S. firms operating in Honduras. We prepared an inventory of existing partnerships, which will be continuously updated, and we encourage corporate social responsibility through both our public diplomacy efforts and private engagement with the business sector.

USAID:

¶14. (U) USAID has been in Honduras since 1961. During the past 47 years, USAID has provided more than \$2 billion in economic assistance to Honduras. After the closing of the highly successful Hurricane Mitch Reconstruction Program from 1999 to 2002, USAID/Honduras's focus shifted to critical transformation activities crucial to the development of Honduras such as the Increase of Economic Growth in order to Reduce Poverty. USAID/Honduras is focused on three areas: Democracy and Governance, Economic Growth, and Investing in People. From 1961 to 2004, USAID invested \$2.9 billion in Honduras. The FY08 budget was \$38.7 million; FY09 proposed is \$49.1 million. The increases are due to additional funds requested for food security and democracy programs.

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Millennium Challenge Corporation:

¶15. (U) The Millennium Challenge Corporation (MCC) approved \$215 million in 2005 for a compact aimed at reducing poverty by addressing key constraints to sustained economic growth in Honduras.

The 5-year program is focused on improving critical transportation infrastructure and improving rural agricultural productivity through a \$127 million Transportation and a \$72 million Rural Development Project. Despite a challenging period during the transition to a new administration, both projects are progressing well, with tangible results evident in increased income generation for small farmers and the start of all major road construction activities. Honduras failed the Control of Corruption indicator used by MCC in FY 2008 but passed the same indicator in FY 2009. Despite the latest score improvement, MCC continues to monitor the progress on implementation of the "remediation plan" presented by the Government of Honduras in response to the failing score in FY 2008.

¶16. (U) The current compact will conclude under a new administration and the program is already engaging the technical teams from each of the major parties. Their engagement will be necessary in order to achieve an effective culmination of the current compact activities. In addition, MCC and the Embassy will soon be preparing for discussions regarding the possibility of a second compact. This preparation is likely to involve the identification of the adequate interlocutors given the upcoming transition, as well as the determination of the ability to present an adequate proposal in time to minimize the hiatus between the current and potential follow-on compact.

Mil-Mil Relations:

¶17. (SBU) The U.S. military has an excellent and open relationship with the Honduran military based on many years of working together. We continue to support the Honduran military with equipment, training, exercises and joint operations. The Honduran military is under-resourced and undermanned for its myriad of duties. It has made great advances in relation to human rights and civil rule since the 1980s. In various recent polls, the military is viewed as one of the most respected public institutions in Honduras, second overall only to the church. Their structure is patterned after the U.S. military with civilian leadership through a civilian Minister of Defense with the President as Commander in Chief. Chief of Defense Forces (CHOD) Major General Romeo Vasquez Velasquez has stated numerous times that his main job is to protect and defend the Constitution of Honduras. The military has also made advancements

in strategic development, with our assistance. While not unaffected by corruption, they appear to be less affected than other areas of government, especially the police.

¶18. (U) The U.S. Military Group's key focus is continuing the transformation of the Honduran military to deal effectively with 21 Century security environment of the region. Specifically, the MilGrp works to build Honduran capabilities of counter-terrorism, counter illicit-trafficking, border/port/airport security, multi-national operations for regional stability, humanitarian assistance and disaster response. The training has been vital in preparing the Honduran military for peacekeeping activities; 51 Honduran soldiers will join Spanish peacekeeping forces in Lebanon later this year.

JTF/BRAVO:

¶19. (U) Joint Task Force-Bravo, located at Enrique Soto Cano Air Base, Comayagua, Honduras, is comprised of approximately 1,200 assigned personnel of which about 575 are military while the remainder includes both LES and civilian contractors who provide base support, communications services and helicopter maintenance. JTF-Bravo forces maintain and operate an all-weather C-5 capable

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airfield and provide the U.S with an agile response capability in Central America. Recent Humanitarian Assistance/Disaster Relief Operations include flooding relief in Honduras, Costa Rica and Panama in November 2008 and earthquake relief in Costa Rica in January 2009.

¶20. (SBU) Little progress has been made by the GOH in pushing for establishing a civilian airport at Soto Cano. Current plans call for the construction of a very small terminal that would not interfere with our operations. There is no sign that construction is imminent.

Security and the Merida Initiative:

¶21. (SBU) Violent crime rates have risen in Honduras for years, and the trend continued in 2008. Security continues to be the number one issue of public concern in Honduras. Gang membership is the highest in Central America, prisons are overcrowded havens for criminal organizations, and the Honduran National Police (HNP) remains under-trained and held in low regard by the general public. The Zelaya administration presented a National Security Plan in ¶2005. Although work initially proceeded at a slow pace, the administration stepped up efforts in 2008. The GOH has exceeded its goal to double the size of the police force, and since 2006 the HNP has convened over 13,000 Citizen Security Roundtables to allow neighborhood leaders to address their security concerns directly with local police. In December 2008, President Zelaya authorized USD 1 million to complete construction of a high-security administrative segregation wing at Tamara prison, one of Security Minister Colonel Jorge Rodas' top priorities. The Security Ministry received a USD 32 million security funding increase by the Congress for 2009, and is in the process of implementing the changes authorized by the Police Organic Law of 2008, including establishment of an Internal Affairs Directorate which answers directly to the Minister.

¶22. (SBU) The Zelaya Administration is very supportive of the Merida Initiative. In fact, Honduras was the first Central American country to sign a Merida LOA, on January 9, which Zelaya attended. We have created an Embassy Merida Working Group and have encouraged the Hondurans to do the same (which they have). We also have conceived a two-country, multi-agency approach to working Merida, establishing a U.S.-Honduras Merida Taskforce that deals with both the law enforcement and prevention sides of the effort. Our approach is to use Merida as catalytic tool for the Hondurans to deal with the issue of combating crime and illicit drugs in a more strategic way and in close cooperation with regional partners. In addition to the increased resources provided by Merida and by the European Union, President Zelaya has also committed substantial

resources to double the size of the National Police, bolstered Police Precincts in key crime-ridden areas, successfully pushed for legislative reform of the law enforcement community, and created citizen security committees nationwide to improve police and citizen coordination.

¶23. (SBU) The vast, undeveloped Atlantic coastal region of La Mosquitia continues to be a transit point for drug traffickers, where air and sea shipments can arrive with little scrutiny or resistance from security forces. We are developing a strategy that will focus some of our Merida resources towards the region. Already, with USG military support and guidance, the Honduran armed forces have broken ground on two permanent naval bases along the coast that will be dedicated to the counter-drug effort. The GOH has built new schools and health clinics with joint DOD, State and USAID assistance. Since his arrival in September 2008, the Ambassador has led two trips to the region, traveling with senior GOH officials, Embassy officers, and Honduran press.

¶24. (SBU) Minister of Security Jorge Rodas is an ally in strengthening cooperation on security and law enforcement matters. We are working together on police academy and prisons reform, border

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protection improvements, and a community policing/anti gang program. The Embassy also coordinates its security efforts with other donor missions through the G16 donors group. The EU is a major donor in Honduras, including on security issues.

COUNTERDRUG OPERATIONS:

¶25. (SBU) Honduras, because of its location at the 15th parallel, along with its lengthy history as a paradise for smugglers, has become a logistic and strategic location for the transshipments of cocaine headed for the United States via Mexico or the Caribbean. Maritime and Air Drug Trafficking Organizations (DTO) must either off-load at sea, refuel, or head inland and use land routes to transport their contraband northward. The successes of the DTO's are due in part to a weak government that is lacking in resources as well as governmental corruption. We have had some success with interdictions; so far this calendar year we have interdicted the same amount of cocaine interdicted in all of CY08. DEA works with an INL-supported Honduran vetted unit. DEA is conducting joint maritime counter narcotic operations comprised of elements from the Honduran police and military, which includes the ship-rider program. (The ship-rider program allows partner nation officers to ride on US military vessels to assist in interceptions and seizures in international and partner nations waters.) DEA and JTF/B jointly work air interdictions from Sato Cano which aim to place Honduran police forces at landing zones within 10 minutes of the landing of smugglers. On March 10, a drug smuggling plane crashed and burned due to pilot error while attempting a landing on a road in Yoro province. At least one pilot and probably two were killed. JTF/B helicopters were following the plane and placed Honduran police forces and a DEA agent on the ground eight minutes after the crash. On-line press claims that "DEA" helicopters had shot the plane down were quickly corrected by the Minister of Security and did not develop further.

CONSULAR OPERATIONS:

¶26. (U) There are an estimated 22,000 American citizens resident in Honduras and over 100,000 Americans who visit as tourists and missionaries each year. The Non-Immigrant Visa Unit processes around 45,000 visas per year, issuing about 35%; the Immigrant Visa Unit issues about 4,000 visas per year.

¶27. (U) The critical crime situation in Honduras has had a direct impact on American citizens here. Sixty-nine U.S. citizens have been murdered in Honduras since 1995; only twenty-three cases have been resolved. Many cases have not progressed through the courts, with police and prosecutors citing lack of resources and capabilities to address complex murder cases. In response, the Embassy proposed and supported the formation of a joint

prosecutor/police task force dedicated to investigating and prosecuting these crimes. The task force has had some success in closing cases, but is hampered by lack of attention and, again, resources, and requires some care and feeding by the ACS section.

¶28. (SBU) Increased crime has led to increased kidnappings, which have also affected U.S. citizens. Four U.S. citizens were kidnapped in January and February 2009 - three escaped, have been rescued, or have been released. All were also Honduran citizens and all information suggests that their kidnappers did not know of their American citizenship. In response to these incidents, as well as to support Honduran police efforts against a dramatic nationwide increase in kidnappings, we currently have an FBI technical team in country. The rescue of a six-year old American citizen and her 12-year old brother on March 13 was directly attributable to the FBI team's work.

¶29. (U) Immigration Issues - Honduras continues to be the second largest recipient country for deportees from the U.S., behind Mexico. There were nearly 30,000 Hondurans deported from the U.S.

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in 2008. President Zelaya has expressed consternation at the continued pace of deportations of Hondurans, and recently raised the issue with DHS Secretary Napolitano. He is also interested in gaining some permanent status for Hondurans in the U.S. under Temporary Protected Status (TPS). The Honduran business community is working to put together an ambitious program to send several thousand agricultural workers to Fresno County, California under the H2A visa program.

MANAGEMENT ISSUES:

¶30. (U) Embassy staff includes 98 direct-hire Americans, 273 locally engaged staff (LES) and 94 American Dependents. The Management Section has a staff of 12 direct-hire Americans, seven eligible family members, and 112 locally engaged staff. Our key management issues include:

--Program and ICASS Funding has been flat for the past three years and FY-2009 appears to offer no improvement.

--We have been unable to fund the salary increases suggested by the Department to allow us to remain competitive in the local employment market. A recent study by our LES association showed that employees in our three lowest grades need, on average an additional \$1,500 per year just to maintain the basics of life. Currently six FSNs make less than the newly proposed minimum wage of Lps. 5,500 (\$290/month).

--We have instituted a drastic cost containment plan to assure sufficient funding for FY-2009 and to use some of the savings to augment FSN salaries at the end of the Fiscal Year.

--Four approved ICASS funded LES positions are unfilled due to insufficient funding and there is a clear need for three additional ICASS funded LES positions but with no expectation of even creating them in the next five years.

Llorens